

**REPORT OF THE AUDIT OF THE
HANCOCK COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
May 5, 2009 Through April 15, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
HANCOCK COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period
May 5, 2009 Through April 15, 2010

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2009 Taxes for the Hancock County Sheriff for the period May 5, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$5,001,410 for the districts for 2009 taxes, retaining commissions of \$140,640 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,858,247 to the districts for 2009 taxes. Taxes of \$59 are due to the districts from the Sheriff.

Report Comment:

2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Jack B. McCaslin, Hancock County Judge/Executive

Honorable Ralph Dale Bozarth, Hancock County Sheriff

Members of the Hancock County Fiscal Court

Independent Auditor's Report

We have audited the Hancock County Sheriff's Settlement - 2009 Taxes for the period May 5, 2009 through April 15, 2010. This tax settlement is the responsibility of the Hancock County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Hancock County Sheriff's taxes charged, credited, and paid for the period May 5, 2009 through April 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated April 25, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Jack B. McCaslin, Hancock County Judge/Executive
Honorable Ralph Dale Bozarth, Hancock County Sheriff
Members of the Hancock County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

April 25, 2011

HANCOCK COUNTY
RALPH DALE BOZARTH, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period May 5, 2009 Through April 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 189,763	\$ 384,608	\$ 1,884,073	\$ 454,812
Tangible Personal Property	51,726	171,355	513,564	1,088,004
Fire Protection	2,594			
Increases Through Exonerations				202
Franchise Taxes	28,588	70,367	282,905	
Additional Billings	88	179	874	192
Unmined Coal - 2009 Taxes	129	261	1,279	281
Oil Property Taxes	609	1,235	6,048	1,327
Limestone, Sand and Mineral Reserves	138	279	1,368	300
Clay Property	41	84	413	91
Penalties	881	1,774	8,642	1,973
Adjusted to Sheriff's Receipt	(22)	(11)	(81)	(28)
Gross Chargeable to Sheriff	274,535	630,131	2,699,085	1,547,154
<u>Credits</u>				
Exonerations	1,119	2,425	11,110	2,147
Discounts	4,282	9,915	42,090	29,298
Delinquents:				
Real Estate	3,057	6,127	30,011	6,585
Tangible Personal Property	61	166	607	495
Total Credits	8,519	18,633	83,818	38,525
Taxes Collected	266,016	611,498	2,615,267	1,508,629
Less: Commissions *	11,306	25,988	39,229	64,117
Taxes Due	254,710	585,510	2,576,038	1,444,512
Taxes Paid	254,567	585,244	2,574,666	1,443,770
Refunds (Current and Prior Year)	139	254	1,330	741
Due Districts as of Completion of Audit	\$ 4	\$ 12	\$ 42	\$ 1

**

*And ** See Next Page.

The accompanying notes are an integral part of this financial statement.

HANCOCK COUNTY
RALPH DALE BOZARTH, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES
For The Period May 5, 2009 Through April 15, 2010
(Continued)

* Commissions:

4.25% on \$ 2,386,143

1.5% on \$ 2,615,267

** Special Taxing Districts:

Library District	\$	10
Health District		2
		<hr/>

Due Districts	\$	12
		<hr/> <hr/>

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Hancock County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2010
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Hancock County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 13, 2009 through April 15, 2010.

Note 4. Interest Income

The Hancock County Sheriff earned \$731 as interest income on 2009 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Hancock County Sheriff collected \$10,418 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jack B. McCaslin, Hancock County Judge/Executive
Honorable Ralph Dale Bozarth, Hancock County Sheriff
Members of the Hancock County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Hancock County Sheriff's Settlement - 2009 Taxes for the period May 5, 2009 through April 15, 2010, and have issued our report thereon dated April 25, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hancock County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2009-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hancock County Sheriff's Settlement - 2009 Taxes for the period May 5, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Hancock County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Hancock County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, cursive script.

Crit Luallen
Auditor of Public Accounts

April 25, 2011

COMMENT AND RECOMMENDATION

HANCOCK COUNTY
RALPH DALE BOZARTH, SHERIFF
COMMENT AND RECOMMENDATION

For The Period May 5, 2009 Through April 15, 2010

INTERNAL CONTROL – MATERIAL WEAKNESS:

2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Segregation of duties over receipts and disbursements or implementation of compensating controls, when needed because of the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or misappropriation of assets.

A lack of segregation of duties exists over the receipt and disbursement functions of the Sheriff's office because a limited number of employees are available to properly segregate these job duties. The bookkeeper is responsible for the collection of cash and preparation of the daily deposit and daily tax collection journal. She is also responsible for the preparation of monthly reports and issuance of monthly tax distribution checks to each taxing district.

Because the bookkeeper handled all receipt and disbursement functions and compensating controls were not implemented, the following occurred:

1. No documentation of reconciling bank statements to monthly reports.
2. No documentation of reconciling monthly reports to receipts and disbursements.

To adequately protect employees in the normal course of performing their duties and to help prevent inaccurate financial reporting and/or misappropriation of assets, we recommend the Sheriff separate the duties over the receipt and disbursement functions listed above. If this is not possible, due to limited number of staff, then strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could also provide oversight. The individual providing this oversight should initial source documents as evidence of this review.

Sheriff's Response: Steps are being implemented for the above to be in compliance.

